The Commodities Feed: Gold hits record highs

Spot gold prices hit record highs after last week's US inflation data. However, stronger-than-expected US factory activity and the upcoming US jobs report means that gold could have a volatile week

Energy – Tensions grow amid tightening oil market

Oil prices continued to edge higher yesterday with Brent hitting an intra-day high of almost US$88/bbl – levels last seen back in early November. And this momentum has only continued in early morning trading today. An escalation in tensions in the Middle East would have pushed prices higher. Iran has accused Israel of carrying out an airstrike on its embassy in Syria, which killed three senior members of Iran's Revolutionary Guards.

This renewed tension comes at a time when oil fundamentals continue to firm thanks to the rollover of OPEC+ voluntary additional supply cuts. The tightening in the oil market is evident in the price action we have seen in the timespreads for both Brent and WTI, with them moving into deeper backwardation. The prompt ICE Brent timespread is trading at just shy of US$1/bbl, up from US$0.70/bbl towards the end of last week. The deficit environment through the second quarter should keep timespreads firm.

Adding to tightness concerns are media reports that Mexico will cut exports of its Maya crude in order to improve supply for domestic refineries. If seen, this would only tighten up the market further, particularly for heavier sour grades.

The European 2023/24 winter is officially behind us now and the region has finished the winter with very comfortable natural gas storage levels. Data from GIE shows that storage in Europe was slightly less than 59% full at the end of March. Not only is this above the almost 56% full seen at the same stage last year, but it is also a record high for this time of year. Comfortable storage levels at the start of the injection season suggests that we could see further downward pressure on European gas prices. Forecasts also show that temperatures in Northwest Europe should be above average over the next two weeks.

There is little on the energy calendar for today. Apart from US inventory numbers from the API, we should also start to get preliminary OPEC production numbers for March.

Metals – Gold hits fresh record highs

Gold's upward rally continues with spot prices reaching a record high of US$2,265.73/oz yesterday following inflation data from the US late last week. However, stronger-than-expected US factory data for March dampened the rally in gold as the trading session progressed. The unexpected expansion in factory activity would have called into question the market's expectation for the Fed to start cutting rates in June. We are likely to see further volatility in gold this week, particularly with the US jobs report scheduled for later this week. Gold remains in overbought territory and so there is certainly the potential for a pullback in the short term, particularly if we get a strong jobs report on Friday.

Meanwhile, ETF holdings in gold continue to not align with price action. ETF holdings continue to decline with them standing at around 82moz, down from 85.6moz at the start of the year. Over the same time period, spot gold prices are up around 9%. There is plenty of room for investors to buy the gold market, but maybe we need to wait for the Fed to actually start cutting rates before investors jump fully into the market.

Iron ore prices had a volatile session yesterday with prices falling to an intra-day low of US$95.2/t (the lowest since August 2023), only to settle above US$101/t as of yesterday. However, prices recovered most of the losses later in a volatile trading session yesterday. Iron ore prices are down more than 27% this year on the back of disappointing end-use demand along with ample supplies. Last week, the China Iron and Steel Association (CISA) noted that the depressed property sector and relatively weak infrastructure are delaying a recovery in steel demand. Meanwhile, the latest Steelhome data shows that Chinese iron ore port inventories rose by 1.6mt, with total stocks standing at 142.1mt as of 29 March, the highest since September 2022. Net inflows for March stood at 9mt as of last Friday, compared to net outflows of 5.7mt during the same time last year.

Agriculture – US crop conditions improving

The USDA's first crop progress report for the season showed that the US corn plantings have started at the usual pace with around 2% planted for the week ending 31 March. This was above the 5-year average of 1%. Similarly, winter wheat crop conditions improved significantly for this stage of the season due to good rains in major producing regions. The agency rated around 56% of the winter wheat crop in good-to-excellent condition, compared to around 28% a year ago.

Export inspection data from the USDA for the week ending 28 March shows that the US exports for corn and wheat remained strong, while soybean shipments slowed over the last week. US weekly inspections of corn for export stood at 1,431.5kt, up from 1,255.2kt in the previous week and 1,098.5kt reported a year ago. Similarly, export inspections for wheat stood at 499kt over the week, up from 432.8kt in the previous week and 168.5kt reported a year ago. Meanwhile, US soybean export inspections fell to 414.5kt compared with 785.1kt a week ago and 503.9kt seen a year earlier.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com